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FISCAL IMPACT STATEMENT

LS 7030

BILL NUMBER: HB 1573

NOTE PREPARED: Feb 2, 2005

BILL AMENDED: Feb 1, 2005

SUBJECT: Agricultural Vehicles and Excise Tax Issues.

FIRST AUTHOR: Rep. Cherry

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill:

- (1) reduces the annual excise tax for certain vehicles used in farming operations from 50% to 25% of the amount for other vehicles of the same declared gross weight;
- (2) caps base year revenues at the amounts determined for CY 2005 for purposes of the commercial vehicle excise tax;
- (3) changes the defined term "implement of husbandry" to "implement of agriculture" for purposes of the motor vehicle code, and requires the Bureau of Motor Vehicles (BMV) to determine categories of implements of agriculture by rule;
- (4) redefines the terms "farm tractor" and "tractor" for purposes of the motor vehicle code;
- (5) defines "special machinery" and sets a fee for registration;
- (6) provides that certain motor vehicles may be operated and registered as farm trucks, farm trailers, or farm semitrailers and tractors if not used for certain commercial enterprises;
- (7) makes it a Class C infraction (and a Class B infraction for a second offense within three years) to operate or own a farm truck, farm trailer, or farm semitrailer and tractor if the vehicle is used for certain commercial enterprises;
- (8) revises the definitions of "law enforcement officer" and "police officer" for purposes of the motor vehicle code to include a motor carrier inspector (inspector), and gives an inspector authority over violations of certain offenses involving a farm truck, farm trailer, or farm semitrailer;
- (9) requires the BMV to adopt rules to identify and define "farm truck", "farm trailer", and "farm semitrailer and tractor";
- (10) prohibits a police officer from impounding certain farm products when a vehicle is discovered in violation of registration requirements, and removes the penalty against an officer for a reckless violation of this

provision;

(11) revises the exclusion of certain garden tractors from the application of the Waste Tire Management Fund fee;

(12) repeals the definitions of "farm machinery", "farm tractor used in transportation", and "special farm machinery", and repeals references to those terms within the motor vehicle code;

(13) deletes an obsolete reference to a financing statement for a farm tractor;

(14) repeals the license fee for certain vehicles used in farming operations; and

(15) makes conforming amendments.

Effective Date: Upon passage; July 1, 2005.

Explanation of State Expenditures: (1)(Revised) For the BMV there will be printing and computer expenditures of an estimated \$5,000 associated with this proposal. The fund affected is the Motor Vehicle Highway Account (MVHA), which supports the BMV.

(10) The bill prohibits a police officer from impounding certain farm products when a vehicle is discovered in violation of registration requirements, and removes the penalty against an officer for a reckless violation of this provision. This will have an impact on the State Police and will depend upon the number of such occurrences and the time involved. The funds affected are the state General Fund, the Motor Vehicle Highway Account, and the Motor Carrier Regulation Fund. It also revises the definition of law enforcement officer and police officer to include motor carrier inspectors.

Explanation of State Revenues: *Summary:* The bill is estimated to increase revenues by \$1,052,240 annually.

(6) The bill provides that certain motor vehicles may be operated and registered as farm trucks, farm trailers, or farm semitrailers and tractors if not used for certain commercial enterprises.

Trucks plated as farm trucks pay 50% of the fee associated with a particular weight class. In CY 2003, the 13,457 farm trucks in the 11,000 lbs. category paid a total of \$564,172 in registration fees. With the elimination of the 11,000 lbs. farm truck plate, these trucks now will pay an additional \$437,352 in registration fees. The fund affected is the Motor Vehicle Highway Account.

The proposal also repeals the \$11.75 registration fee for farm tractors. In CY 2003, there were 64 farm tractors registered. Based on the 64 registrations, the revenue loss would amount to \$752. The funds affected are the Motor Vehicle Highway Account, the Crossroads 2000 Fund, the BMV Technology Fund, and the State License Branch Fund.

In addition, the bill removes the farm trailers plated at 12,000 lbs. In CY 2003, the 5,473 vehicles in the 12,000 lbs. category paid a total of \$224,260. With the elimination of the 12,000 lbs. category, these vehicles now will pay an additional \$109,640 in registration fees. The fund affected is the Motor Vehicle Highway Account.

The proposal also defines "special machinery". In CY 2003, there were 11,950 vehicles classified as "special machinery". It is assumed that 11,000 of these vehicles no longer will be classified as "special machinery", but instead will be classified as a farm trailer 16,000 lbs. The fee for "special machinery" is \$16.75, while the fee for a farm trailer 16,000 lbs. is \$62.75, a difference of \$46. The net revenue increase is estimated at \$506,000.

(7) *Penalty Provision:* The bill provides for a Class C infraction for the first offense and a Class B infraction

for the second offense. If additional court cases occur, revenue to the state General Fund may increase if infraction judgments and court fees are collected. The maximum judgment for a Class C infraction is \$500, and \$1,000 for a Class B infraction, both of which are deposited in the state General Fund. If court actions are filed and a judgment is entered, a court fee of \$70 would be assessed, 70% of which would be deposited in the state General Fund if the case is filed in a court of record or 55% if the case is filed in a city or town court.

(11) Waste Tire Management Fund Exclusion: The bill changes the horsepower requirement for a lawn and garden tractor from 20 horsepower to 25 horsepower for imposition of the Waste Tire Management Fund fee. With this change, fewer new tires purchased will be subject to the \$0.25 fee. The fund affected is the Waste Tire Management Fund. The reduction in revenue attributable to lawn and garden tractors between 20 and 25 horsepower is not known.

Explanation of Local Expenditures: (10) This provision will have an impact on local law enforcement and will depend upon the number of such occurrences and the time involved.

Explanation of Local Revenues: (Revised) (1) *Commercial Vehicle Excise Tax (CVET) on Farm Vehicles:* CVET is paid on Indiana-based and non-Indiana-based commercial motor vehicles with a plated gross vehicle weight of 11,000 lbs. The tax is assessed as a percentage of registration fees and is apportioned on a mileage basis. CVET on farm-plated vehicles is assessed at 50% of the normal CVET rate. CVET revenues are distributed to all local civil taxing units and school corporations that impose a property tax levy.

Under this bill, the CVET rate for farm vehicles would be reduced from 50% to 25% of the normal rate. Farm vehicles (at 50% of the normal rate) were responsible for 5.8% of the total collections in 2004. If only 25% of the rate were charged and the rates recalculated to reflect the change, then farm vehicles would pay about 3.0% of the total revenue.

The provisions in this bill relating to farm vehicle registrations and to the CVET rate that would be assessed against farm vehicles would not change total CVET revenue. Rather, these changes would shift part of the CVET currently paid on farm vehicles to nonfarm vehicles. Another provision in this bill would reduce the growth rate used to calculate total CVET revenue. Based on the slower growth, the farm rate reduction, and the increase in total farm registrations, this bill would create a shift of CVET liability from farm vehicles to nonfarm vehicles of about \$1.39 M per year, beginning in CY 2006.

(2) Under current law, each taxing unit's base CVET revenue increases by 5% each year. Likewise, the statewide total base revenue increases by 5% each year. Beginning with distributions in CY 2006, this bill would allow no increases by capping the revenue at the CY 2005 revenue amount.

The CY 2004 statewide base CVET revenue was \$55.6 M. Under current law, at 5% growth, the base revenue amount will be \$58.4 M in CY 2005, \$61.3 M in CY 2006, and \$64.4 M in CY 2007. Under the proposal, with no growth, CVET revenue growth would be reduced by \$2.9 M in CY 2006 and \$6.0 M in CY 2007. The reduction in revenue growth would continue to grow at about \$3 M per year after CY 2007.

Note: The bill also changes the annual calculation of the CVET rate. This is necessary to account for the smaller CVET rate that farm vehicle owners will pay. The change that counts 50% of the farm registrations instead of 200% in the rate formula both accounts for this change and fixes a technical error in current law. The current formula does not produce a rate that will generate the desired CVET revenue. The 200% should

have read 100% to make current CVET funding whole.

State Agencies Affected: Bureau of Motor Vehicles; State Police; Department of Environmental Management; Department of Local Government Finance; Department of State Revenue.

Local Agencies Affected: Recipients of MVHA distributions; local law enforcement agencies; all local civil units and school corporations.

Information Sources: Bureau of Motor Vehicles Cash Audit CY 2003; and DOR CVET Statistics.

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